

SENATE BILL 632  
By McNally

AN ACT to amend Tennessee Code Annotated, Title 8, Chapter 34, to enact the "Educators' Deferred Retirement Option Plan".

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF TENNESSEE:

SECTION 1. Tennessee Code Annotated, Title 8, Chapter 34, is amended by adding Sections 2 through 13 as a new part to be appropriately designated.

SECTION 2. This part shall be known and may be cited as the "Educators' Deferred Retirement Option Plan".

SECTION 3. For the purposes of this part, "teacher" means an employee as defined in Section 49-5-501(10).

SECTION 4. The state treasurer shall develop a deferred retirement option plan, hereinafter referred to as "the DROP", under which teachers may elect to participate, deferring receipt of monthly retirement benefits while continuing employment with a local education agency. Such retirement benefits shall be paid by the Tennessee consolidated retirement system, established under Section 8-34-201, into an account established for a participating teacher. The deferred monthly benefits shall accrue on behalf of the participant, plus interest and cost of living adjustments, for the specified period of the DROP participation.

SECTION 5. A member of the Tennessee consolidated retirement system employed in a local education agency as a teacher is eligible to participate in the DROP provided that such member has reached service retirement eligibility based on years of credible service or age under Section 8-36-201.

SECTION 6. During the period when an employee participates in the DROP, the employee and the employer shall continue to make contributions to the Tennessee consolidated retirement system as required under Title 8, Chapter 37.

SECTION 7. Any teacher who participates in the DROP will retain full employment rights and benefits, including salary, with the following exceptions:

(1) The teacher shall not be entitled to tenure status as provided in Title 49, Chapter 5, Part 5;

(2) The teacher shall not be considered a "professional employee" for the purposes of Title 49, Chapter 5, Part 6;

(3) During the period when the teacher participates in the DROP, the teacher shall not accrue additional service or salary credit in the Tennessee Consolidated Retirement System or in any superseded system administered by the state of Tennessee, and the average final compensation component of the teacher's benefit calculation shall not increase.

SECTION 8. The monthly retirement benefit paid into the teacher's DROP account by the Tennessee consolidated retirement system during the DROP participation period shall equal eighty-five percent (85%) of the total monthly retirement benefit for which the teacher is eligible.

SECTION 9. Retirement benefits that accumulate in the DROP shall earn interest at a rate of one half of one percent (1/2%) less than the Tennessee consolidated retirement system's annual actuarially realized rate of return on investments, except that the rate of interest earned shall not be less than zero percent (0%). In addition, retirement benefits that

accumulate in the DROP shall receive annual cost of living adjustments according to the provisions of Section 8-36-701.

SECTION 10. An eligible employee may participate in the DROP for a period not to exceed five (5) years, and participation in the DROP is irrevocable. Upon completion of the DROP, the employee shall not be eligible for employment with any agency or department covered under the Tennessee consolidated retirement system; however, the employee may be reemployed under the guidelines set by Title 8, Chapter 36, Part 8.

SECTION 11. Upon completion of the DROP, the participant shall receive the DROP benefits in one of the following manners:

(1) Lump sum. – All accrued DROP benefits, plus interest, less withholding taxes remitted to the internal revenue service, shall be paid to the DROP participant or surviving beneficiary.

(2) Direct rollover. – All accrued DROP benefits, plus interest, shall be paid from the DROP directly to the custodian of an eligible retirement plan as defined in Section 402(c)(8)(B) of the Internal Revenue Code. However, in the case of an eligible rollover distribution to the surviving spouse of a deceased participant, an eligible retirement plan is an individual retirement account or an individual retirement annuity as described in Section 402(c)(9) of the Internal Revenue Code.

(3) Partial lump sum. – A portion of the accrued DROP benefits shall be paid to the DROP participant or surviving spouse, less withholding taxes remitted to the internal revenue service, and the remaining DROP benefits shall be transferred directly to the custodian of an eligible retirement plan as defined in Section 402(c)(8)(B) of the Internal Revenue Code. However, in the case of an eligible rollover distribution to the surviving spouse of a deceased participant, an eligible retirement plan is an individual retirement account or an individual

retirement annuity as described in Section 402(c)(9) of the Internal Revenue Code. The proportions shall be specified by the DROP participant or surviving beneficiary.

SECTION 12. The provisions of this act shall not be construed to be an appropriation of funds, and no funds shall be obligated or expended pursuant to this act unless such funds are specifically appropriated by the General Appropriations Act.

SECTION 13. The state treasurer is authorized to promulgate rules and regulations to effectuate the purposes of this act. All such rules and regulations shall be promulgated in accordance with the provisions of Tennessee Code Annotated, Title 4, Chapter 5.

SECTION 14. This act shall take effect July 1, 2003, and cease to be effective on June 30, 2013, the public welfare requiring it.